

THE A.I.D. ECONOMIC POLICY REFORM PROGRAM IN SENEGAL

A.I.D. PROJECT IMPACT EVALUATION REPORT NO. 77

by

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PREFACE

We would like to express our appreciation to the individuals whose assistance greatly contributed to the completion of this report. In particular, we are grateful to the many officials of the Government of Senegal whose extensive guidance and many documents helped us test our basic hypotheses. Directors and managers from both the formal and informal sectors welcomed us despite the pressing demands on their time. Julius Coles, U.S. Agency for International Development Mission Director, and Richard Greene, the Mission's Program Officer, gave us "carte blanche" to develop our conclusions and provided us with a wide range of Mission resources.

Ms. Assitan Thioune, the Mission's Assistant Program Economist, served as a de facto fifth member of the evaluation team; she drafted Section 2 of the report and provided important insights as we struggled with the complexity of our task. Ms. Saïda Doumbia was extraordinary in managing all aspects of our logistical and administrative needs, from setting up an endless series of meetings to keeping our voluminous documents straight. Ms. Fatou Kader, the Mission's Reference Librarian, performed document searches and produced the documents quickly and efficiently. Finally, Ms. Lauri Acrement, the Mission's Information Systems Manager, gave us access (probably against her better judgment) to the Mission's most sophisticated microcomputer facilities.

While we gratefully acknowledge the assistance of everyone named, we accept responsibility for any remaining errors of fact or presentation.

SUMMARY

The Agency for International Development's (A.I.D.) African Economic Policy Reform Program (AEPRP-I)¹ in Senegal was designed to play a supportive role to the industrial sector reforms managed by the World Bank. The World Bank sector reforms targeted a wide range of policy and institutional reforms to promote increased economic activity, more stable government revenues, and greater public sector effectiveness. The AEPRP-I reforms targeted tax and revenue administration. This report presents new data to demonstrate the impact of the AEPRP-I reforms, the methods and analysis used to distinguish actual impacts from exogenous factors, and the lessons learned in promoting industrial restructuring through tariff and tax reform in Senegal.²

By the mid-1980s, Senegal was experiencing major economic difficulties--difficulties that were especially evident in the industrial sector. Because of years of heavy tariff protection and fiscal policies that heavily taxed both the agricultural sector and consumers, the industrial sector became stagnant. Government revenues from productive economic activity declined, and the economic costs of industrial protection became unsustainable. Faced with the gravity of the crisis, senior members of the Government of Senegal and major donors agreed that industrial sector policy reform in the context of broad structural adjustment was essential for renewed economic dynamism. Based on this assessment the Government and the donor community identified a wide range of industrial sector policy reforms, which collectively became known as the "New Industrial Policy" or Nouvelle Politique Industrielle (NPI). A.I.D.'s AEPRP-I played a secondary, reinforcing role to the NPI reforms.

A.I.D. contributed \$14 million in cash transfer funds (which generated an equivalent sum of local currency) and \$1 million in technical assistance to promote the AEPRP-I reforms. Although A.I.D. funds represented only a small percentage of the total resources required for the industrial sector restructuring, the AEPRP-I constituted the major economic and financial reforms implemented during the first phase of the NPI (1986-1990). In many respects, AEPRP-I functioned substantively as the NPI during this period--a fact that prompted the evaluation team to consider

¹A.I.D. has implemented two economic policy reform programs in Senegal: Industrial Sector Reform (AEPRP-I) and Financial (banking) Sector Reform (AEPRP-II).

²CDIE Working Paper No. 135 contains a longer version of this paper and the complete Appendixes.

the AEPRP-I reforms in the context of the NPI, even though A.I.D. never anticipated this scope for its policy reform framework.

Almost all of the economic policy reforms targeted by A.I.D. were implemented over a 3-year period, from 1986 to 1988. During this period, the Government of Senegal substantially reduced quantitative restrictions on imports, allowing commercial and industrial actors broad import authority; implemented a new commercial investment code; reduced across-the-board-tariff protection; and designed a dramatically revised tax revenue system that included major provisions for taxing urban real estate. A.I.D. and the Government of Senegal believed that these reforms would broaden the tax base, increase incentives for productive investment, increase Government tax revenues, and increase the competitive capacity of the industrial sector.

By early 1990, none of these objectives had been attained. Stiff fiscal reform measures, increased external competition, and new administrative procedures require near-term adjustments whose positive effects may not become apparent until the medium term. Furthermore, Senegal's economic environment was extremely unfavorable to reform attempts. Nevertheless at the time of this evaluation some near-term impacts and adjustments were beginning to occur, particularly with regard to promoting private sector competitiveness and reversing the decline in Government revenues; these changes, albeit nascent, had the potential for producing the economic impacts envisioned in the reform programs.

Available data, review of recent donor analyses of industrial sector performance, and interviews with a wide range of actors in the public and private sector, both formal and informal, indicate that tariff reduction and import liberalization introduced in 1986 and 1988 did produce a psychoeconomic shock to the industrial sector. Accustomed to decades of protection, in some cases predating independence, private firms had made no provisions for competing in an international market. The immediate impact of the policy reforms was a slowdown in economic activity in the formal industrial sector and a serious reduction in Government revenues. But the impacts were only partially related to the reforms.

In fact the major reasons for the slowdown in formal sector activity are much broader than the relative reduction in tariff protection. The main attacks on industrial competitiveness came from the unexpected increase in administrative fraud following the reduction in customs rates. Import liberalization attracted short-term profit-seeking individuals, many with little or no previous commercial experience in the formal sector, who imported huge quantities of finished goods. Importers declared these goods at values so unreasonably low as to negate fully any remaining tariff protection for the higher priced locally produced goods. While the evaluation team was unable to estimate

the degree of this fraud, information gathered from multiple sources confirms the negative impact of administrative fraud on formal sector activity.

In addition to administrative fraud, the competitiveness of local producers in the formal sector was reduced by the weakening purchasing power of the Senegalese economy. The decline in Government purchasing power showed a historical trend in Senegal, having dropped by approximately 50 percent since 1960. This decline accelerated in 1988-1989 because of political instability, an unexpectedly low peanut harvest, locust infestations, and the adverse economic impact of the political difficulties with Mauritania and The Gambia.

The ability of local industrial firms to adjust rapidly to competitive pressures, legitimate as well as illegitimate, was further weakened by the failure of donors and the Government of Senegal to implement a full range of complementary reforms (mésures d'accompagnement)--for example, providing easily accessible credit for refinancing and modernization, establishing labor legislation to streamline work forces, lowering costs for production inputs, and streamlining Government administrative requirements. As of January 1990, with the exception of minor administrative adjustments, none of the complementary measures had been implemented.

Finally, the commitment of the Government of Senegal to creating effective stimuli for expanding privately managed productive capacity was weakened by an unfavorable political situation and the conflicting agendas of the donors participating in industrial sector reforms. Hotly contested presidential and legislative elections in February 1988 prevented the Government from negotiating critical labor legislation reforms with Senegal's aggressive labor unions.

Furthermore, the urgent concerns of the International Monetary Fund (IMF) to maintain or increase declining revenues resulted in an increase in tariff rates in August 1989 (contrary to AEPRP-I agreements). Similarly the politics of the French Government were ambiguous, marked by concerns for easing the shock of international competition to French-owned enterprises and for easing the desperate fiscal situation of the Government of Senegal. Both A.I.D. and the World Bank maintained support for industrial sector reforms, but neither was outspoken in dealing with reform backsliding or with the failure of donors and the Government of Senegal to implement complementary reforms.

Despite the weight of these external factors and the relatively short time in which the reforms had become operational, the evaluation revealed that the A.I.D.-supported reforms are already showing signs of desired effects and should produce favorable impacts in the medium term. Some industrial

firms visited by the evaluation team have already demonstrated a capacity to adjust to the conditions of world market competition. Implementation of complementary reforms should accelerate this process. Employers in the formal sector uniformly praised the quality of Senegalese labor, particularly at the technical and supervisory level (although minimum labor wages are among the highest in Francophone Africa).

One of the least understood phenomena of the adjustment process has been the impact of the reforms on the informal sector. A.I.D. has been the leader among donors in its efforts to monitor these impacts. Analyses of the most recent data from two USAID Mission-financed surveys in Dakar and Kaolack demonstrate that commercial and productive activity in the informal sector has significantly increased over the past 3 years. Increased commercial activity, linked to the ready availability of cheap consumer goods, has produced increased owner-operated businesses and participation of women in the labor force. Cheaper inputs, linked to tariff reforms, appear to have encouraged increases in investments in informal sector enterprises. Cheap imports have also provided a windfall to low-income Senegalese in both rural and urban areas, but at a potential social and economic cost.

While it is probable that Government of Senegal revenues will remain stagnant or will even decrease in the next 2 years, the impact of the A.I.D.-designed income tax reforms, authorized in January 1990, should produce increasing revenues starting in 1992. Automation of customs processing, the on-line tie-in to the Tax Service, and increased automation within the Tax Service should contribute to widening the tax base and increasing revenues. In the medium term, therefore, reforms supported under AEPRP-I have the potential for producing the adjustment and revenue-generating impacts envisioned in the Program Agreement.

Key lessons learned from AEPRP-I include the importance of (1) negotiating and monitoring donor commitment to a set of reforms critically linked to the success of A.I.D.-sponsored reforms, (2) establishing effective communication with the groups centrally affected by the reforms and envisioning appropriate mid-course adjustments, (3) being sensitive to political events that can hinder the impact of the desired adjustments, and (4) coordinating competing donor agendas and being aware of the potential impact of those agendas on the course of implementing policy reforms.

1. BACKGROUND

1.1 Introduction

Before independence Senegal was the center of administration and industry in French West Africa. In the decades following independence, however, its position changed. The progressive shrinking of Senegal's regional market and its continuing reliance on trade barriers to protect its industry caused the industrial sector to become virtually comatose. The industrial labor force, which enjoyed a privileged position because of its political clout, also grew complacent and unproductive. The national peanut marketing board incurred large debts financed through the banking sector (with the exception of a few private banks). As the financial and economic crises came to a head, Senegal had no alternative but to undertake a long-overdue structural adjustment. The Government of Senegal and the donor community identified a comprehensive set of industrial sector reforms, which collectively became known as the New Industrial Policy (Nouvelle Politique Industrielle [NPI]). The NPI was supported and managed by the World Bank. The economic policy reforms supported by the Agency for International Development (A.I.D.) were part of this effort. The purpose of this evaluation is to assess the impact of the A.I.D.-supported economic policy reforms on the economy of Senegal in general and on the industrial sector in particular.

The five-person evaluation team visited Senegal in January 1990 to investigate and evaluate the impact of each of the components of the policy reform program supported by A.I.D. The evaluation team introduced hypotheses and tested them rigorously using a variety of sources: interviews with key donor and Government officials responsible for implementing the policy reform program; individual and group interviews with representatives of groups most affected by the reforms, notably formal and informal sector entrepreneurs; and data and documents gathered from the World Bank and the International Monetary Fund (IMF) in Washington, D.C. and USAID/Dakar, Government of Senegal ministries, and other donors in Senegal.

1.2 The Senegalese Economy in Decline

The macroeconomic data highlight Senegal's difficult economic situation brought on by decades of industrial sector protection. Senegal's economy is small. In 1987, per capita gross national product (GNP) was about \$520 and its population in 1989 was about 7 million (World Bank 1986). Even at official exchange rates, gross domestic product (GDP) was less than \$5 billion in 1988. The economy is heavily dependent on weather for agricultural output, which accounts for 20 to 22 percent of GDP (the lowest in the Sahel region). Swings in agricultural revenues affect the demand for industrial output, which accounts for 15 percent of GDP. Overall, the secondary sector makes up 28 percent of GDP. Commerce, services, and the administration make up the remaining 50 to 52 percent of total output.

Over time, the Senegalese economy became progressively less open. Exports fell from 46 percent of GDP in 1960-1961 to 29 percent in 1985-1986 to less than 26 percent in 1987-1988. Imports as a percentage of GDP also fell from 51 percent in 1960-1961 to 38 percent in 1985-1986 to less than 32 percent in 1987-1988.

In recent years, with the exception of 1988-1989, rainfall has been good, but the demand for Senegal's principal exports--peanuts, peanut oil, and phosphates--has been weak and fish exports have performed poorly. Under the broad macroeconomic stabilization and adjustment programs begun in the early 1980s, the Government of Senegal reduced its share of GDP considerably, from about 25 percent in 1983-1984 to only 20 percent in 1987-1988; at the same time it reduced the overall fiscal deficit from 4.6 percent of GDP to 1.2 percent. According to official data, GDP has grown at rates of more than 4 percent per year, except for 1988-1989, when growth dropped to near zero. Very few enterprises have done well exporting to countries in Europe or Africa. Within the formal sector, no outstanding growth sector has manifested itself. Given the seriousness of the economic decline, efforts to reduce rigidities in the economy became essential if Senegalese industry was to compete effectively in a global market.

1.3 Evolving Development Strategies in Senegal

During the 1980s Senegal became a flagship example of a major shift in emphasis in African development programming for many major donors, especially the World Bank and A.I.D. For both donors, Senegal became a test case of the appropriateness of the market liberalization approach in the African context. Like most African countries, Senegal was primarily agricultural and poor. Unlike many of them, however, Senegal had a physically viable port, a transport and telecommunications infrastructure, and, therefore, some industrial potential. Furthermore, Senegal, unlike many of its neighbors, was not ideologically opposed to opening its economy to private sector growth.

By 1982, Senegal had agreed with its primary donor partners to launch a new era that would address broad macroeconomic policy reform issues. The proportion of policy reform nonproject assistance relative to sector or sector-specific project assistance in A.I.D. and World Bank country portfolios increased steadily. Until recently, A.I.D.'s contribution to this process, in the form of Economic Support Fund program grants, had addressed reforms in the agricultural sector. In 1986, A.I.D. initiated two A.I.D. African Economic Policy Reform programs (AEPRP) in Senegal: industrial sector reforms (AEPRP-I) and financial (banking) sector reforms (AEPRP-II). This report

examines the AEPRP-I reforms, which targeted fiscal reform and improved tax administration and were in keeping with the objectives of Government of Senegal's NPI.

1.4 Structural Adjustment and the New Industrial Policy

AEPRP-I supported import duty reductions and import liberalization--key reforms associated with the NPI. At the same time, AEPRP-I attempted to balance Government revenues lost through reduced customs levies by improving overall tax administration (e.g., improving collections) and by broadening the tax base (e.g., simplifying the income tax system and increasing taxable assets in urban real estate). The first set of fiscal reforms, dismantling trade barriers, is closely linked to a policy reform environment that is broader than the AEPRP-I reform targets. This evaluation, therefore, attempts to examine the impacts of A.I.D.-sponsored reforms in the context of the Government of Senegal's NPI and the World Bank's management of the structural adjustment process.

2. THE ROLE OF A.I.D. IN PROMOTING TAX AND CUSTOMS REFORMS

2.1 Content of the Reform Package

A.I.D. selected tax and customs reforms as part of a broader structural adjustment process agreed to by the Government of Senegal and major international donors. AEPRP-I reforms were intended to achieve the following:

- Increase the equity of the tax system by widening the tax base and reducing tax evasion
- Remove disincentive to savings and productive investment by reducing customs tariff and direct tax rate
- Stem the decline in tax receipts relative to increases in GDP by simplifying and improving tax administration
- Reinforce the thrust of the overall economic reform effort by reducing government interventions and by providing incentives for the growth of a vital and competitive private sector

It is important to note that AEPRP-I was to be implemented along with a broad set of complementary measures designed to increase incentives for private sector investment. These

measures included easy access to investment credit, flexible labor legislation to improve work force efficiency, lower costs for production inputs, and streamlined Government administrative requirements. Unfortunately, to date, none of the complementary measures has been implemented--a situation that aggravated the adverse impacts of the industrial restructuring, as discussed in Section 5.1.

2.2 Financial Support To Promote Tax and Customs Reforms

A.I.D. contributed \$14 million in cash transfer funds (which generated an equivalent sum of local currency) and \$1 million in technical assistance to promote the tax reforms. The cash transfer was released in three tranches.

- The first tranche (\$5 million) was released in September 1986 after the Government of Senegal provided evidence that it had (1) adopted a new customs code, (2) published the first round of reduced tariff rates, and (3) made a preliminary reduction in quantitative import restrictions.
- The second tranche (\$5 million) was released in September 1987 after the Government of Senegal provided evidence that it had (1) further reduced quantitative import restrictions, (2) adopted a law announcing a second round of revised customs tariff rates, and (3) revitalized a working committee to establish a global income tax.
- The third tranche (\$4 million) was released in December 1988 after the Government of Senegal provided evidence that it had (1) announced the reduced customs tariff rate, (2) published regulations removing quantitative import restrictions on additional products, (3) adopted a new investment code, and (4) presented A.I.D. with a preliminary draft of a revised tax code substituting a single tax on individuals for a per capita deduction for dependents and a reduced maximum marginal rate.

2.3 Use of Local Currency

Local currency funds were used to increase private sector economic activity and private sector banking liquidity. Of the \$14 million provided in local currency funds, \$10.7 million was used for repayment of agroprocessing parastatal debt to the

banking sector and \$3.3 million was used for repayment of Government of Senegal arrears to the private sector.

2.4 A.I.D.-Funded Studies and Technical Assistance

As stated earlier, A.I.D. provided \$1 million in technical assistance, of which approximately \$555,000 was used to assist the Government of Senegal in revising the direct tax component of the general tax code. A.I.D. provided the Tax Department with international tax experts who developed computer simulations designed to shift Senegal's current double taxation system to a unitary or global taxation system (for a full description of the tax reforms targeted in AEPRP-I, see Appendix C).

Approximately \$415,000 of the \$1 million was designated for evaluating the impact of tariff rate reductions and eliminating quantitative import restrictions on industrial sector performance. The Mission in December 1986, contracted with a consulting firm to design a monitoring and evaluation plan and provided technical assistance to implement the plan. A key feature of the plan was the computerization of three quarterly surveys of industrial performance.

3. THE IMPACTS OF CUSTOMS, TARIFF, AND TAX REFORMS

3.1 The Roller Coaster Path to Fiscal Stability

The primary objective of the IMF stabilization and World Bank structural adjustment reforms were to stem the decline of Government revenues and, at the same time, create the conditions that would lead to increased economic activity and, by widening the tax base, increased government revenues. This section examines the uneven results obtained when the Government of Senegal reduced both quantitative import restrictions and import duties (1986-1988) as well as the across-the-board tariff increase of August 1989.

3.1.1 Customs Reform and the Decline in Customs Receipts

Customs receipts are composed of two types of taxes or duties: import duties (customs duties plus fiscal duties), which are the basis of all trade protection policies, and internal taxes (value-added tax [VAT]) collected by customs.

The customs reform resulted in a substantial reduction of the tax rates: tax rates for import duties decreased by 11 percent for locally made consumer goods and by more than 30 percent for "strategic" goods and for imported goods not directly competing with local production. The reduction in customs duties, including VAT, was 12 percent for semifinished products and 8.1 percent for locally made consumer goods. If imports had remained constant, the tariff reductions between July 1986 and July 1988 would have resulted in a significant reduction in customs receipts--between 8.1 percent and 26.1 percent, depending on the product category. Of course, the Government of Senegal had hoped that overall customs receipts would increase because of increases in the volume of imports stimulated by reductions in import duties.

Why then did customs receipts decline following the implementation of the reforms? One explanation lies in the definition of the reform. In Senegal, both customs duties and VAT must be paid on imported goods. The total customs payment due is equal to the sum of the customs rate and the VAT rate applied to the cost, insurance, and freight (CIF) value of the import. The A.I.D.-supported reform reduced tariff rates (the sum of the basic customs duty rate and the so-called "fiscal duty" rate), but the VAT rate remained unchanged.

Second, the gap between customs duties payable and duties collected increased, particularly after FY 1986-1987. In addition to the gap that traditionally exists between the amount billed and the amount collected, significant amounts of customs duties billed were not immediately recovered at the beginning of FY 1986-1987. For example, four state-owned companies, under agreements established to rationalize their management systems (contracts plans), were granted multiyear deferrals for payment of customs duties on major investments.

Third, the composition of the product mix to which customs duties are applied affected tax receipts. During FY 1986-1987, tariff reduction was limited to mechanical industry products, metalworks, and paper packaging. Despite the reduction of the tax base, customs receipts increased substantially (8.2 percent) because of changes in the composition of imports. For example, food imports, which were taxed at a lower rate, declined markedly while other imports taxed at a higher rate increased.

In FY 1987-1988 tariff reduction was extended to raw materials, but a slight increase in taxable imports was recorded. Tax collection increased by 4.1 percent. In FY 1988-1989, the volume of taxable imports increased significantly, due largely to the increase of the less-taxed food imports. Since the tariff reduction was uniformly applied, however, the changes in the composition of imports caused a 10.9 percent reduction in customs receipts as compared with the preceding year's receipts.

Fourth, external events affected tax receipt levels. The decrease in customs receipts during the first semester of FY 1988-1989 (3.5 billion Franc Communauté Financière Africaine [CFAF]) was considerably aggravated during the second semester (7.6 billion CFAF) by postelection unrest, the conflict with Mauritania, and a poor peanut crop, all of which had a negative impact on the economy. Despite these noneconomic events, lack of confidence among businessmen and their foreign suppliers, and difficulty in obtaining loans even at high real interest rates, imports of inputs increased by 6.1 percent between 1987 and 1989. Imports of consumer goods increased by 3.1 percent. Changes in import composition appear to have limited the expected loss of customs receipts. The trend is difficult to interpret, however, because of exogenous factors that influenced the level of imports.

3.1.2 The Economic Significance of Tariff Reduction

Tariff reduction should have had a relatively limited impact on the real level of customs receipts, but customs receipts actually declined following tariff reductions. Between July 1986 and July 1988, reduction of import duties (customs duties and internal taxes) was equivalent to only 6 percent of the CIF value of the product for goods produced locally and 24 percent for imports not competing directly with local production. This "unfavorable" effect on local producers was compensated for by the reduction in the cost of inputs resulting from the tariff reduction--equivalent to 4 percent of the CIF value of inputs for raw materials and semifinished goods. Therefore, local producers could have remained competitive by reducing their selling price by only 3.4 percent. What factors, therefore, explain the unexpected gap between actual and predicted budgetary receipts?

3.1.3 The Importance of Nontariff Factors in Explaining Low Revenues

The removal of standard customs valuations (*valeurs mércuriales*), quotas, and prohibited goods, as well as the liberalization of conditions required to obtain an import license, do not by themselves explain why customs revenues declined following liberalization. The full explanation for the unexpectedly low level of revenues can be found in the unanticipated increase in administrative fraud practiced by new entrants to the import business.

Sources of Customs Fraud. Traditionally two major types of fraud existed in Senegal before 1986: smuggling, which originated in neighboring countries (The Gambia and Mauritania), and administrative fraud ("under invoicing") practiced by established importers who are relatively risk-averse (i.e., they

can cheat a little without risking attacks to their reputation as legitimate merchants).

Both types of fraud are sensitive to changes in tariff rates. A reduction in rates normally leads to decreased fraud because lower rates reduce the expected benefits from fraudulent behavior. In the case of Senegal, however, customs liberalization increased the difficulty in verifying customs values for a wide range of new products and stimulated commercial activity by a large new category of importers. These new importers were both less risk-averse and more interested in short-term profit gains than were the established importers. Informal sector importers did not hesitate to defraud the Government extensively since the consequences of being caught were minor. (The probability of prosecution was low, and direct penalties were easy to evade.)

How Fraud Lowered Customs Revenues. With respect to customs revenues, fraud caused a reduction of the tax base (a lower value of official imports) and thus a loss of tax receipts, the degree of which could not be estimated in this evaluation. Fraud added considerably to the adverse impact of import liberalization on competition--to a potentially much larger degree than tariff reduction. The higher customs taxes paid on inputs by importers acting legally increased these importers' costs relative to the costs of those who paid little or no duty on finished goods.

3.1.4 Reform "Backsliding" in Mid-1989--The End of Senegal's Perestroika?

As a result of the precipitous decline in customs receipts, the Government of Senegal, at the urging of the IMF, reversed the process of customs liberalization begun in July 1986. In August 1989, the Government of Senegal increased the basic customs duty rate from 10 percent to 15 percent, resulting in a total tariff rate close to the initial rate in effect before 1986. Customs officials effectively increased the VAT by shifting more products into the highest rate category while reducing the top rate from 50 percent to 30 percent. Finally, the Government reinstated standard customs valuations and minimum levies.

The evaluation team believes, however, that increased import duties will only marginally slow the liberalization process since many of the earlier liberalization measures are still in effect. Liberal access to import permits and the elimination of quantitative restrictions remain unchanged. In addition, five factors could act to increase customs collections in the near term: (1) reduction in smuggling due to greater surveillance of the Mauritanian and Gambian borders, (2) restoration of standard customs valuations, (3) automation of customs operations, (4)

reduction in customs and tax exemptions, and (5) lessening of the liquidity crisis in the Senegalese banking system.

3.2 The Painful Impact of Opening an Economy to International Standards of Competition

The impacts of the AEPRP-I reforms are not easily disassociated from the long-term trends in the economy and from such exogenous factors as rainfall, locusts, and troubles with Mauritania in 1989. Reduction in tariff rates and elimination of most quantitative restrictions have had a limited impact on the economy, particularly in industrial sector performance. Little overall adjustment has taken place, and new investment is minimal, in part because of continuing labor market rigidity, limited credit availability, and the high costs of energy, water, telecommunications, and transport. Special agreements with some industries on sugar, flour, and cement--products that were not touched by the reforms--keep the cost of these inputs well above world prices. To further complicate the evaluation of impacts, the August 1989 increase in customs duties and VAT for a large number of consumer goods reversed the direction of the 1986 and 1988 tariff reductions. The reverses created confusion in the minds of potential investors about the Government's intentions and reduced the enthusiasm for new investments.

The tariff reductions and import liberalization contributed to greater price stability, however--a significant benefit for Senegalese consumers. The cost-of-living index for "modern" consumption fell from 8 percent in 1985 and 6.2 percent in 1986 to only 2.3 percent in 1987 and -0.4 percent in 1988. For "traditional" consumption, the rate of increase in the price index fell from 13 percent and 6.2 percent to -4.1 percent and -1.8 percent for the same years (the difference between the modern and traditional cost-of-living indexes is in the types of goods included in each index and the weights assigned to different categories of consumer goods. Increased competition with imported products and the threat of competition from imports helped keep the price of manufactured products down, and good rains have helped keep food prices from rising.

Although some firms failed after tariff rates were reduced, in almost every case the firm had already been in trouble years before the reform and probably would have closed in time, regardless of the liberalization reforms. Given Senegal's problems of over-capacity and aging industrial plants, it would have been surprising to see a reversal of the disinvestment that was already taking place. At most, AEPRP-I may have accelerated the demise of firms that could never have become competitive.

Regarding the impact of the reforms on employment, one industry association estimated a loss of 10,000 jobs in the formal industrial sector (on a basis of 72,000 jobs in 110 enterprises). USAID/Senegal's database of 33 formal sector firms shows that only 3 firms had added employees since 1987; all other firms had maintained their permanent work force at the same level or had reduced it through normal attrition. With very few exceptions, the overall tendency was a reduction in formal sector industrial employment. However, given the excess capacity of most industries and their declining market some job losses over this period would have occurred even in the absence of the reform.

The most important aspect of the AEPRP-I reforms is the psychoeconomic shock the Government administered to the industrial sector. No one believed the Government would lower customs rates and eliminate quantitative restrictions. As a result, industries had made no preparations to respond to the new economic environment. Profits were squeezed, and in the absence of comfortable protective barriers, firms had to scramble to find ways to reduce costs and improve marketing. In the new environment, firms were unable to adjust and restructure. The absence of measures to relieve the rigidities of the labor market and the high cost structures facing firms accelerated the failure of some weak firms but otherwise resulted in little adjustment during the 1986-1989 period.

During the period of adjustment, imports fell because of reduced demand for food imports and weak economic growth. However, as discussed earlier, the decline shown in official data may also be partly due to an increase in fraudulent importing practices following the liberalization of the import market. Anecdotal evidence on imports of tomato paste, cloth, pasta, automobile batteries, and spare parts point to increased opportunities for some importers to make false declarations and pay substantially lower duties.

Exports, primarily peanut oil and fish products, also declined because they could not compete effectively in the international market. At this assessment, the future for exports is not bright. The hoped-for increase in textile exports following the shakeout period will not be realized in the near term. Costs remain too high and labor productivity is too low for a textile boom to occur in Senegal or for agro-industry to become competitive in export markets. The potential for growth of fish exports is also compromised by the high cost structure faced by the industry relative to its competitors'.

As foreseen in the Program Assistance Approval Document, the overall impact of AEPRP-I in the short term was negative in terms of output and employment; however, for consumers, who benefited from the increased price stability, and for the informal sector,

which benefited from reduced costs of inputs, AEPRP-I impacts were positive. Unfortunately, other critical measures needed to correct structural problems of the Senegalese economy, which were not part of AEPRP-I, were not implemented. As a result, the basis for a medium-term improvement in the economy is not yet in place.

3.3 Public and Private Sector Adjustments to Economic Policy Reforms

This section focuses on the organizational adjustments made by public- and private-sector institutions in response to economic policy reform measures. In the public sector, NPI-related reforms were accompanied by adjustments in the capacity of administrative units to manage the reform process. In the private sector, high-performing firms implemented a wide range of strategies to adjust to a dramatically heightened competitive environment.

3.3.1 Administrative Capacity for Managing the Reform Process

Among the public sector responses to the tax and tariff reforms was the creation of an on-line computerized customs registration system, GAINDE,³ which represents the most striking example of potentially increased administrative capacity. GAINDE, which was designed entirely by the Customs Service and installed in January 1990 and connected to selected offices, will link importers, customs officers, and the Tax Service. Importers will fill out customs declarations from remote terminals and will have on-line access to customs rates and charges. The Tax Service will have immediate access to import data and should be able to significantly increase its ability to recover appropriate tax fees from importers. Since the system was just being field-tested during the course of the evaluation, it was not possible to gauge its full operating potential.

Automation has also strengthened the capacity of the Tax Service to identify, track, calculate, and recover tax fees owed by individual tax payers. With the implementation of the recently revised tax system, taxpayers are identified by unique numbers (similar to Social Security numbers in the United States), which will permit the Tax Service to increase its effectiveness in establishing tax liability and in determining possible cases of under-reporting. Armed with the computerized

³GAINDE, or the Gestion Automatique de l'Information et Des Echanges, is also the Wolof word for lion.

real estate register (due in 1991), which will help determine urban property tax, the Tax Service should be able to contribute to an effective widening of the tax base and to increased revenues, both important medium-term objectives of AEPRP-I.

The *Guichet Unique* (equivalent to an all-purpose service center), established in the Ministry of Economy and Finances, was the primary institutional innovation designed to reduce the administrative burden on private sector businesses. The Guichet provides businesses with a wide range of information and government forms required for operating commercial enterprises in Senegal. The Guichet was created in response to repeated private sector complaints about the tremendous diversity of offices and forms that businesses had to deal with, particularly in starting new activities. Interviews indicated that while the Guichet has cut down on the administrative red tape of starting new activities, businesses remain concerned about the administrative costs of commercial reporting requirements associated with numerous other government offices.

3.3.2 Crying Wolf, Lobbying Government, and Improving Management: Private Sector Responses to Fiscal Reforms

Recent reports summarizing the impacts of the NPI on formal sector industrial activity uniformly conclude that the adverse impacts of the AEPRP-I reforms on formal sector industrial activity has been significant (MDIA 1989, Judet 1989, Barbier 1989, UNIDO 1989, CESAG 1989). The conventional wisdom is that firms in the formal sector have systematically lost market share, curtailed operations, closed shop, decreased work force, and postponed new investment decisions. However, persistent references by knowledgeable observers in Dakar to the fact that some firms were actually holding their own or, in some cases, doing better raised critical questions about this analysis.

Did private sector investors and managers have legitimate claims that lowering protective barriers had created the conditions of unfair competition with local enterprises? Were these actors just "crying wolf" in order to preserve the easy operating circumstances characteristic of the pre-1986 reform period? Or was the sector experiencing the predicted shakeout common to the structural adjustment process? In order to test these hypotheses, evaluation team members visited more than 15 formal sector firms in the Dakar area; most of these firms had been identified as "doing okay" or "doing better" over the last 4 years.

On the basis of these visits, the evaluation team was able to identify seven adjustment strategies enacted by firms in response to the more competitive environment (see Table 1). Five

Table 1. Firm-level Adjustment Strategies
to Reform Measures

| Strategy | Activity |
|--|--|
| Marketing | Improving product quality by purchasing higher cost inputs; use of media |
| Modernization of Plant/ Capacity | Using new processing or production methods/equipment; reducing input costs |
| Product Diversification | Starting new product lines |
| Improved Personnel bonuses Management | Providing productivity |
| Restructuring | Starting a subsidiary; regrouping activities |
| Effective Lobbying for societies Policy Implementation | Using professional (e.g., Conseil National du Patronat) to meet regularly with senior political leaders and key administrative personnel to plan the implementation of policy reform measures |
| Negotiating Special tariff Relief Agreements | Obtaining specific protection (<i>valeur mercuriale</i>), tax exemptions |

of these strategies (marketing, product diversification, modernization of equipment, improved personnel management, and restructuring) could be classified as managerial adjustments, and two could be classified as political strategies (effective lobbying for a role in policy implementation and negotiating special relief agreements). In all but one of the strategies (negotiating special relief agreements), firms demonstrated behavior that is consistent with the economic objectives of the structural adjustment process. In addition, presidents and general managers of the firms expressed near unanimity on the necessity of the reforms for improving the economic health of the country.

Interviews with heads of these firms revealed a striking common characteristic: their willingness to take calculated risks in an uncertain environment and under difficult economic circumstances. Heads of these firms have little certainty, even in the near term, on what their production costs will be. For example, in mid-January firms were notified of an unexpected 23-percent increase in their water bill. The inability of firms to plan over even relatively short time periods has discouraged businesses from implementing more aggressive investment programs. As one entrepreneur complained, "one cannot change policy like one would change a shirt."

Despite the highly uncertain economic environment and the absence of the full range of complementary measures promised as part of NPI's policy reform package (see Sections 2.1 and 5.1), leaders of these firms remain cautiously optimistic on the prospects for doing business in an environment of heightened competition. These individuals appear to believe that attitudes at the highest levels of Government have begun to change and are now more favorable to private sector initiatives. They believe that Senegalese labor, if managed properly, is competitive with productive norms of other successful Third World exporting countries. While the evaluation team does not claim that these owners and managers are broadly representative of Senegal's formal industrial sector, their behavior demonstrates that AEPRP-I reforms are beginning to produce the competitive responses required to make Senegal's industry "leaner and meaner" in a market environment less distorted by ineffective and costly protection.

3.4 The Mushrooming Informal Sector: Cushion or Quagmire?

Evidence suggests that Senegal's burgeoning informal sector has grown at an accelerated rate since some of the NPI measures were enacted, especially the customs tax reform measures of the AEPRP. In fact, microenterprises relying most heavily on the

provision of imported inputs, either for primary materials or for spare parts, appear to have grown the most over the last 3 years.

The evidence is derived from two A.I.D.-funded surveys:

- A baseline and follow-up sampling of Kaolack-area businesses performed for USAID/Dakar's small-scale enterprise credit project
- Carbel Zarour's (1989) intensive interviewing of entrepreneurs from 558 representatively selected microenterprises in the greater Dakar area.

In addition, from the list of businesses contained on the two survey databases, the evaluation team selected 38 growing microenterprise firms and queried the owners directly about the impact of import price variations on their operations.

The following findings from the Kaolack and Dakar area surveys are representative evidence of aggregate microenterprise growth between 1986 and 1989 (see Appendix C and Appendix D for details):

- **Profits** doubled for Kaolack-area firms with fixed assets (three-fourth of the total); in the Dakar area, profit margins increased most appreciably in enterprises using imported inputs.
- **Investments in new capital equipment** increased for Kaolack-area manufacturing enterprises working with imported material; such growth was also documented for manufacturing enterprises in the Dakar area, where only 9 percent of the firms complained about the unavailability of equipment or about cost.
- **Employment** in Kaolack increased by an average of 1.5 laborers per enterprise, again led by the manufacturing firms (an average of 2 laborers for businesses receiving credit from the USAID/Dakar project there); over 61 percent of the Dakar-area firms were prepared to hire new apprentices, which, if the sample is representative, means that 16,875 new jobs are available there.

The evaluation team's conversations with the owners of the 38 microenterprises also confirmed these trends:

- **Input Prices** in 1987-1988 fell for the most part, or at least held steady. Where they increased--as in the case of imports not benefiting from the tariff reduction (e.g., cloth)--enterprise growth was attributed to increased purchasing power among the clientele.

- **Investments** in fixed capital were being made, but interviewees stressed that their strategy of accelerating purchases of spare parts, usable material, and other rolling capital was in the expectation (confirmed in 1989) that import tariffs would increase again. However, the persistence of a long-term investment strategy, even after the recent price rise, is explained by the fact that consumers' purchasing power remained steady following the original 1986 boost, and quantitative restrictions on imports have not been reimposed.
- **Employment** was described as growing in two ways: (1) internal expansion of the enterprise or (2) divesting part of the manufacturing, repair, or distribution process as a separate venture sharing the same clientele with the lead manufacturing enterprise.

Firms frequently resort to segmentation to avoid appearing too conspicuously profitable to either the Government or the extended family. In this context, segmentation is not an attempt to avoid expansion or investment; rather it is an attempt to camouflage that growth. In fact, the tendency of small firms to avoid growth seemed only to be operating among that minority of firms owned by outside Muslim brotherhood (Mauride) investors, who deliberately take their profits elsewhere in order to better control their client borrowers. Otherwise, a deliberately invisible expansion is underway in the informal sector. Most of the entrepreneurs interviewed recognized a direct relation between cheaper imported inputs and the growth of their operations.

4. THE IMPACT OF THE 1990 INCOME TAX REFORM: REASONS FOR GUARDED OPTIMISM

Although A.I.D. had specified the adoption of a revised global or unitary income tax as one of the AEPRP-I reforms, the Government of Senegal enacted the reforms only recently (January 1990), too early, therefore, for the evaluation team to measure any impacts. The evaluation team believes, however, that following a "breaking in" period, income tax reforms will contribute to increased Government revenues and a broader tax base. Greater use of withholding tax on salaries, better identification of individuals in noncommercial professions, the impact of the urban real estate register, and the automation of the tax system should all produce favorable responses in revenue collections.

5. SORTING OUT EXTERNALITIES: FACTORS DETERMINING

THE STATUS OF THE AEPRP-I REFORMS IN SENEGAL

Distinguishing externalities from actual effects in a development intervention is difficult, even under normal circumstances. In the case of AEPRP-I, the task was made more complex because the tax and fiscal reforms supported under AEPRP-I constituted a fundamental part of the broader structural adjustment reform package negotiated by the World Bank. Clearly, the AEPRP-I reforms and the NPI have produced a slowdown in formal sector economic activity. These outcomes can be viewed as "positive" indicators of the "crunch" predicted for the initial period following the implementation of the economically painful structural adjustment reforms. The outcomes must also be considered in the context of the extremely unfavorable external circumstances, which might have produced a similar slowdown even in the absence of the AEPRP-I reforms.

5.1 Uneven Implementation of the Full Package

Two aspects of policy implementation, both for the AEPRP-I and the broader NPI reform measures, appeared to attenuate the positive impact of AEPRP-I. The first was the decision by the Government of Senegal in August 1989 to increase customs duties (*droits de douanes*) by 5 percent. Government of Senegal and IMF concerns for declining customs revenues in 1988 and 1989 stimulated the reversal of the Government of Senegal's commitment to dismantling trade protection as agreed to in the AEPRP-I agreement and the World Bank structural adjustment program. The evaluation team believes that the customs duty increase probably had greater symbolic impact than substantive impact on the competitiveness of formal sector operations. Psychologically, however, the "flip-flop" in tariff policy reinforced uncertainty in the business environment and may have reduced entrepreneurs' willingness to move ahead with new investments.

More significant in terms of direct impact on the cost of doing business in the formal sector was Government and donor failure to implement a broad set of complementary measures designed to increase incentives for private sector investment. These measures included reducing the cost of critical inputs (e.g., water, energy, communications, transport, port, and labor); providing additional flexibility in labor legislation associated with hiring, firing, and compensating workers; providing access to investment credit; and reducing the cost of administrative formalities. As of January 1990, none of these measures had been effectively implemented. No industrial establishment has been able to comply with the World Bank's APEX (credit line) conditionality or procedures. Second, due to the ineffectiveness of the Government in managing or liberalizing

critical input costs, such as energy, water, and sugar, these costs have either remained stable or increased, rather than decreased. The Government of Senegal and organized labor have failed to achieve a consensus on reforming labor legislation to allow greater private sector flexibility in expanding and contracting employment. Finally, attempts to reduce the administrative costs of "doing business" have not been as far reaching as originally predicted.

5.2 Weakened Purchasing Power and Political Instability

The reform period was characterized by a historical trend in declining purchasing power in the Senegalese economy. The Ministry of Planning has estimated that real purchasing power per capita has declined steadily since 1960. It dropped by 0.2 percent per year between 1960 and 1972, by 3.3 percent per year between 1972 and 1980, and by 2.6 percent per year between 1980 and 1986. The average annual loss in purchasing power per capita since independence has been 1.8 percent. The loss of purchasing power reduced the effective demand for goods produced in the formal industrial sector and created a latent demand for the cheaper goods that became readily available following liberalization of imports.

The events in Mauritania (repatriation of hundreds of thousands of Mauritians in April 1989) and The Gambia (dissolution of the Senegambia Confederation in August 1989) introduced political and economic factors that negated planning assumptions made less than a year earlier. Commercial distribution networks were dismantled and markets narrowed (for legally produced goods, as well as for contraband). The extremely contentious legislative and presidential elections in February 1988 decreased the ability of the ruling party to enact strong labor legislation that would allow enterprises greater flexibility in managing their work force.

5.3 Low Productivity Was Related to Over Protection

In the mid-1980s, productivity norms in many Senegalese manufacturing operations were among the lowest in Africa and the developing world. More than two decades of extensive protection had rendered Senegalese industry incapable of responding rapidly to cost-saving and modernization incentives. It is likely that policy reform analysts were unable to predict accurately the time required for firms to make the structural and psychological adjustments needed to increase industrial competitiveness.

5.4 Differing Donor Agendas

Despite apparent agreement in 1985-1986 over the general framework for industrial sector policy reform, the 4-year period following the initial implementation of the reforms demonstrated considerable divergence in major donor support of the reform package. USAID/Dakar was the strongest supporter of the World Bank's policy reform package, buying a well-defined subset of reforms and moving rapidly to provide funding incentives and technical assistance in exchange for policy enactment. Although the World Bank provided substantial program and project funding support, conversations with Bank personnel in Dakar and Washington, D.C. demonstrated relatively weak commitment to holding the Government of Senegal's feet to the "reform" fire.

The IMF has been strongly critical of the structural adjustment program's failure to rapidly increase Government revenues. When Government of Senegal customs receipts declined precipitously in FY 1989, the IMF encouraged the Government of Senegal to revise customs duties upward in order to meet budgetary shortfalls. French Government cooperation was ambivalent. On the one hand, the French Government was anxious to support French-owned (or operated) businesses, many of whose fortunes had been declining prior to the reform period. On the other hand, the French Government has over the years demonstrated substantial commitment to strengthening the financial situation of a commercial and cultural ally. In 1989 the French moved to fund a credit facility administered by the Caisse Centrale de Coopération Economique, which promised more flexibility than the Bank's APEX facility.

5.5 Lack of a Stable and Certain Environment

In order to compete effectively, private entrepreneurs require a reasonably stable environment, at least in the short- to medium-term. In Senegal during the reform period of 1986-1990, the environment was characterized by a high degree of instability. Factor prices changed without notice; tariff rates decreased sharply over 3 years, then increased; import rules changed dramatically with little consultation with key client groups. Second-guessing the Government on the next change, rather than planning for the implementation of medium-term marketing and production plans, monopolized entrepreneurial energies.

6. LESSONS LEARNED

6.1 The Political Economy of the Policy Reform Enterprise

Senegal's NPI was based on a solid analytical foundation. Development professionals in the donor agencies and the host Government generally agreed with its basic tenets. However, resources devoted to analysis were not matched by resources devoted to the implementation of the reform strategy. Failure to examine the complexities involved in implementing reforms in a highly politicized environment and with inadequate administrative capacity resulted in suboptimal policy impact. The political economy of reform proved as important as the analytical purity of the reform enterprise.

6.2 Getting the Timing Right

If the reform scenario envisioned by the participants of Senegal's NPI had been laid out on a Gantt chart, the interdependencies of policy implementation might have surfaced more clearly than they appear to have. When the impact of policy reform requires the coordinated support of collaborating donors (including the host government), all interested parties must carefully monitor anticipated subsets of the reform and the adverse impact of failing to move forward with any one subset. In Senegal's NPI, the failure to implement any of the accompanying measures prior to the effective date of the policy reforms seriously weakened the entire reform process.

6.3 Donor Coordination

A corollary lesson is that multiple donor programs require more, not less, donor coordination in policy reform projects. However, the stimulus for such coordination is reduced by the relative "invisibility" of the reform process. Participating donors in policy reform projects are less likely to pay attention to a single policy action than they are to a project supporting new vehicles, new infrastructure, or augmented administrative capacity. Frequent exchange among collaborating donors and the host government regarding policy reform progress is essential.

6.4 Donor Decentralization and the Effective Use of Donor Agency Headquarters

Most donors seek guidance from their headquarters for donor coordination on policy reform programs. But because A.I.D. is more decentralized in its operations than are the other donor agencies, USAID Missions often pursue donor coordination alone. In the case of the NPI, USAID/Senegal attempted to orchestrate

World Bank and IMF participation with little recourse to A.I.D./Washington. However, for more effective donor coordination, with participating and nonparticipating donors (e.g., the French or United Nations Development Programme), USAID/Senegal would have required systematic help from Agency headquarters.

6.5 Monitoring and Policy Analysis

The designers of AEPRP-I now recognize the major weaknesses of the system used for monitoring industrial performance: response bias (e.g., making no attempt to consider the impact of missing data due, for example, to the failure of some firms to return the survey questionnaire), the complexity and redundancy of the questionnaire itself, and the fact that firm-level data may be too broad to allow for meaningful interpretation. At the initiation of the program, however, USAID/Senegal believed that the existing information system represented a more attractive option than designing a completely new system. The evaluation team arrived at a different conclusion.

There is a critical trade-off between building on the plethora of existing data sources and seeking elegant simplicity in (and a doable) monitoring design. Different government branches (e.g., customs, tax, planning, statistics) legitimately have distinct information needs. An effective monitoring system, however, must pinpoint the absolute minimum data sets required to measure precisely the impact of the reforms. In the case of the NPI, automation of existing data sets, themselves flawed, did not provide evaluators with a clear picture of the impacts of the reforms.

6.6 Psychoeconomic Shock Treatment

Given the missed opportunities in the history of NPI implementation outlined above, the evaluation team believes that the jolt effect produced by the implementation had some virtue. With better donor coordination and more care, that jolt need not have been as violent as it was. Nevertheless, for many formal sector entrepreneurs, labor union leaders, protected French investors, and the Government of Senegal leadership, there may have been no other way to get the message across. Although strategic care of the policy reform implementation process is of optimal importance, calculated dramatic shocks can also be used to maximum educational effect. All of the interviews clearly showed that the NPI message has been heard, and for most of these listeners there is no turning back.

PROGRAM DATA SHEET

1. Country: Senegal
2. Program Title: African Economic Policy Reform Program-I
3. Program Number: 685-0291
4. Program Implementation:
 - a. Project authorization: August 1986
 - b. Final obligation: December 1988
5. Program Completion--Final Disbursement: December 1988
6. Program Funding: A.I.D. Total \$15 million
7. Mode of Implementation:
 - a. Project Agreement between USAID/Senegal and the Government of Senegal, Ministry of Economy and Finances.
 - b. Implemented by USAID/Senegal and the Ministry of Economy and Finance.
8. Evaluations:

A detailed monitoring and evaluation plan was designed and established in December 1986. Preliminary analyses of the impacts of the program were prepared in 1988 and 1989.
9. Responsible Mission Officials During Life of Program
 - a. Mission Director: Sarah Jane Littlefield (1986-1989)
Julius Coles (1989-present)
 - b. Program Officer: Harold Lubell (1986-1989)
Richard Greene (1989-present)
10. Host Country Exchange Rates:
 - a. Name of Currency: CFAF (Franc Communauté Financière Africaine)
 - b. Exchange rate: (Sept.) 1986 CFAF 332 = 1 US\$
(Sept.) 1987 CFAF 304 = 1 US\$
(Dec.) 1988 CFAF 303 = 1 US\$

GLOSSARY

| | |
|----------------------------|---|
| AEPRP | - African Economic Policy Reform Program |
| A.I.D. | - U. S. Agency for International Development |
| APEX | - World Bank-financed credit line |
| CFAF | - Franc de la Communauté Financière Africaine, local currency |
| CIF | - cost, insurance, and freight |
| GAINDE | - Gestion Automatique des Informations Douanières et des Echanges (Wolof word for lion) |
| GDP | - gross domestic product |
| GNP | - gross national product |
| IMF | - International Monetary Fund |
| NPI | - New Industrial Policy (Nouvelle Politique Industrielle) |
| UNIDO | - United Nations Industrial Development Organization |
| UNDP | - United National Development Programme |
| <u>valeurs mercuriales</u> | - French term, roughly translates to "standard rates" for assessing customs duties |
| USAID | - A.I.D. Country Mission |
| VAT | - value-added tax |

Table 1. Firm-level Adjustment Strategies
to Reform Measures

| Strategy | Activity |
|----------|----------|
|----------|----------|

-^N-

| | |
|---|---|
| Marketing | Improving product quality by purchasing higher cost inputs; use of media |
| Modernization of Plant/ Capacity | Using new processing or production methods/equipment; reducing input costs |
| Product Diversification | Starting new product lines |
| Improved Personnel Management | Providing productivity bonuses |
| Restructuring | Starting a subsidiary; regrouping activities |
| Effective Lobbying for Policy Implementation | Using professional societies (e.g., Conseil National du Patronat) to meet regularly with senior political leaders and key administrative personnel to plan the implementation of policy reform measures |
| Negotiating Special Relief Agreements | Obtaining specific tariff protection (<i>valeur mercuriale</i>), tax exemptions |

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